B4750-1 A

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Apr. 27, 1984

After an extended period of unruliness, money growth seems to be ready to behave itself. For several years, particularly 1983, the Fed has found it hard to control the growth of M1. Earlier this year, we had another difficult situation for M1 growth when the Fed benchmarked M1 and re-estimated its seasonal factors. This process took M1 from the bottom to the middle of its 1983 target and from the bottom to the top of its 1984 target. At the time of this revision, the economy was registering surprisingly strong growth. The end result, in retrospect, is that even the upward revised M1 looks surprisingly weak in the context of strong GNP growth. Put another way: M1 has begun to experience a resurgence in the growth of its velocity. This means money growth may turn out to be less of a problem than some had feared.

In the first quarter of this year, nominal GNP grew at an annual rate of 12.8% compared to 7.4% for M1, implying a 5.4% increase in M1's velocity. This is stronger than M1's average velocity growth through the 1970s and in sharp contrast to the decline in velocity during 1982. Velocity measures the turnover rate of money. When this rate speeds up, the Fed needn't supply as much money as it otherwise would. Put another way: For a given rate of GNP growth and an established M1 target rate, M1 will sit lower in its target range the faster is its velocity growth. Thus it was M1's velocity rise that kept it within its target range of 8% in the first quarter.

Notwithstanding this fairly positive development, there are reasons to be cautious; there is food for the bears. The April-June period has frequently been one of difficulty in terms of seasonally adjusting M1. Right now, some analysts are very concerned about the prospects for very strong (10% or more) money growth in May. Conversely, others (myself included) expect that the May seasonals will not cause fast money growth. The seasonal factors, however, do seem to imply volatile money growth. Beginning next week, it appears that money may fall sharply and then rise strongly, with a continuation of that choppy pattern for a number of weeks. But although money growth will be erratic, I anticipate that M1 will remain, broadly speaking, around the midpoint of its target.

The conventional wisdom of the marketplace is that the economy will slow (at least for the second quarter). This should help to underpin slower M1 growth: People tend to hold money in relation to their income, so as income growth slows so does the growth in money demand. However, the income velocity of money is also an important factor, and it is erratic. It represents the slippage in the GNP/money relationship. If velocity remains on its higher (or normal) growth track, M1 growth will tend to slow. If the economy slows, M1, M2, and M3 will also tend to move lower in their target ranges. Because both of these events are likely to occur, there is some reason for optimism on the matter of money growth. But because forecasting money growth is a less than certain proposition, there is also good reason to be cautious.

Robert A. Brusca

Irving Trust

Market Yields

	4/27/84 (Noon)	4/19/84 (Close)	Year Ago
Prime Lending Rate at Irving Trust Company	12.00%	12.00%	10.50%
Effective since	4/5/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	10.43	10.63	8.75
Repurchase Agreements	9.50	10.32	8.50
U.S. Treasury Issues			
Bills			
3 months	9.92	10.08	8.30
6 months	10.43	10.48	8.56
1 year	10.98	10.95	8.71
Coupons			
2 years	11.86	11.71	9.36
4 years	12.35	12.28	9.74
7 years	12.68	12.65	10.14
10 years	12.75	12.73	10.27
Long Bond	12.80	12.77	10.38
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.25	10.38	8.30
3 months	10.50	10.55	8.35
6 months	10.85	10.87	8.45
1 year	11.50	N.A.	8.90
Banker's Acceptances			
1 month	10.25	10.56	8.46
3 months	10.50	10.79	8.43
6 months	10.90	11.15	8.55
Eurodollar Deposits			
1 month	10.68	10.87	8.81
2 months	10.87	10.93	8.88
3 months	11.00	11.06	8.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.16	10.16	8.63
1 month	10.43	10.59	8.56
3 months	10.51	10.67	8.54
Bank Holding Companies			
1 month	9.84	9.84	8.17
Dealer Placed:			
3 months	10.72	10.72	8.56
New AA Corporate Utility Bond	14.00	13.80	11.60
Tax Exempt			
6 month Project Notes	5.65	5.65	4.80
1 year AAA Bond	6.00	5.75	4.75
5 year AAA Bond	7.45	7.40	6.30
20 year AAA Bond	9.50	9.40	8.20

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629